

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>		Printed Name		License Number

VILLAGE OF CUSTER

Mason County, Michigan

FINANCIAL STATEMENTS

February 28, 2006

VILLAGE OF CUSTER

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets.....	3
Statement of Activities.....	4
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	5
Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities	6
Statement of Revenues, Expenditures and Changes in Fund Balances	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Proprietary Fund:	
Statement of Net Assets.....	9
Statement of Revenues, Expenses and Changes in Net Assets.....	10
Statement of Cash Flows.....	11
NOTES TO FINANCIAL STATEMENTS	13
REQUIRED SUPPLEMENTAL INFORMATION:	
Budgetary Comparison Schedule – General Fund.....	22
Budgetary Comparison Schedule – Special Revenue Fund – Major Street Fund	23
Budgetary Comparison Schedule – Special Revenue Fund – Local Street Fund	24
OTHER SUPPLEMENTAL INFORMATION:	
General Fund:	
Detailed Schedule of Revenues.....	26
Detailed Schedule of Expenditures.....	27
Schedule of Indebtedness	28
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29



INDEPENDENT AUDITORS' REPORT

To the Members of the Village Council
Village of Custer, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Village of Custer as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Custer's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Village of Custer as of February 28, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated last day of fieldwork, on our consideration of the Village of Custer's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Custer's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Berthiaume & Co.

June 20, 2006

BASIC FINANCIAL STATEMENTS

VILLAGE OF CUSTER

STATEMENT OF NET ASSETS

February 28, 2006

	<i><u>Governmental</u></i> <i><u>Activities</u></i>	<i><u>Business-type</u></i> <i><u>Activities</u></i>	<i><u>Total</u></i>
Assets:			
Cash and cash equivalents	\$ 217,156	\$ 57,469	\$ 274,625
Receivables	15,323	8,995	24,318
Internal balances	65,450	(65,450)	-
Restricted cash and cash equivalents	-	44,400	44,400
Capital assets:			
Nondepreciable capital assets	750	74,753	75,503
Depreciable capital assets, net	<u>22,800</u>	<u>2,043,717</u>	<u>2,066,517</u>
Total assets	<u>321,479</u>	<u>2,163,884</u>	<u>2,485,363</u>
Liabilities:			
Accounts payable	979	218	1,197
Long-term liabilities:			
Due within one year	-	8,000	8,000
Due in more than one year	<u>-</u>	<u>265,000</u>	<u>265,000</u>
Total liabilities	<u>979</u>	<u>273,218</u>	<u>274,197</u>
Net assets:			
Invested in capital assets, net of related debt	23,550	1,845,470	1,869,020
Restricted for:			
Debt service	-	44,400	44,400
Streets	39,482	-	39,482
Unrestricted	<u>257,468</u>	<u>796</u>	<u>258,264</u>
Total net assets	<u>\$ 320,500</u>	<u>\$ 1,890,666</u>	<u>\$ 2,211,166</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions/Programs				
<i>Governmental activities:</i>				
General government	\$ 18,086	\$ 1,200	\$ -	\$ (16,886)
Public safety	1,044	-	-	(1,044)
Public works	68,747	-	33,661	(35,086)
Recreation and culture	3,233	-	-	(3,233)
Total governmental activities	<u>\$ 91,110</u>	<u>\$ 1,200</u>	<u>\$ 33,661</u>	<u>\$ (56,249)</u>
<i>Business-type activities:</i>				
Sewer	<u>\$ 79,375</u>	<u>\$ 73,827</u>	<u>\$ -</u>	<u>\$ (5,548)</u>
Total business-type activities	<u>\$ 79,375</u>	<u>\$ 73,827</u>	<u>\$ -</u>	<u>\$ (5,548)</u>

continued

The accompanying notes are an integral part of these financial statements.

	<i><u>Governmental Activities</u></i>	<i><u>Business- type Activities</u></i>	<i><u>Total</u></i>
Changes in net assets			
Net (Expense) Revenue	\$ (56,249)	\$ (5,548)	\$ (61,797)
General revenues			
Taxes			
Property taxes, levied for general purpose	12,227	-	12,227
State revenue sharing - sales tax	23,863	-	23,863
Unrestricted investment earnings	5,420	2,539	7,959
Miscellaneous	<u>6,409</u>	<u>-</u>	<u>6,409</u>
Total general revenues	<u>47,919</u>	<u>2,539</u>	<u>50,458</u>
Change in net assets	(8,330)	(3,009)	(11,339)
Net assets, beginning of year	<u>328,830</u>	<u>1,893,675</u>	<u>2,222,505</u>
Net assets, end of year	<u>\$ 320,500</u>	<u>\$ 1,890,666</u>	<u>\$ 2,211,166</u>

VILLAGE OF CUSTER

GOVERNMENTAL FUNDS

BALANCE SHEET

February 28, 2006

	<i><u>General Fund</u></i>	<i><u>Major Street Fund</u></i>	<i><u>Local Street Fund</u></i>	<i><u>Total Governmental Funds</u></i>
Assets:				
Cash and cash equivalents	\$ 182,162	\$ 10,349	\$ 24,645	\$ 217,156
Taxes receivable	1,565	-	-	1,565
Due from other governmental units	7,685	4,435	1,638	13,758
Due from other funds	<u>76,939</u>	<u>-</u>	<u>713</u>	<u>77,652</u>
Total assets	<u>\$ 268,351</u>	<u>\$ 14,784</u>	<u>\$ 26,996</u>	<u>\$ 310,131</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 620	\$ 359	\$ -	\$ 979
Due to other funds	<u>10,263</u>	<u>1,939</u>	<u>-</u>	<u>12,202</u>
Total liabilities	<u>10,883</u>	<u>2,298</u>	<u>-</u>	<u>13,181</u>
Fund balances:				
Unreserved:				
General fund	257,468	-	-	257,468
Special revenue funds	<u>-</u>	<u>12,486</u>	<u>26,996</u>	<u>39,482</u>
Total fund balances	<u>257,468</u>	<u>12,486</u>	<u>26,996</u>	<u>296,950</u>
Total liabilities and fund balances	<u>\$ 268,351</u>	<u>\$ 14,784</u>	<u>\$ 26,996</u>	<u>\$ 310,131</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

February 28, 2006

Total fund balances for governmental funds	\$ 296,950
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Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	72,750	
Less accumulated depreciation	<u>(49,200)</u>	<u>23,550</u>

Net assets of governmental activities	<u>\$ 320,500</u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 28, 2006

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Total Governmental Funds</i>
Revenues				
Property taxes	\$ 12,227	\$ -	\$ -	\$ 12,227
State grants	23,863	24,581	9,080	57,524
Interest and rents	11,472	66	1,073	12,611
Other revenue	<u>6,409</u>	<u>-</u>	<u>-</u>	<u>6,409</u>
Total revenues	<u>53,971</u>	<u>24,647</u>	<u>10,153</u>	<u>88,771</u>
Expenditures				
Current				
General government	17,446	-	-	17,446
Public safety	1,044	-	-	1,044
Public works	6,950	19,058	46,730	72,738
Recreation and culture	<u>3,233</u>	<u>-</u>	<u>-</u>	<u>3,233</u>
Total expenditures	<u>28,673</u>	<u>19,058</u>	<u>46,730</u>	<u>94,461</u>
Net change in fund balances	25,298	5,589	(36,577)	(5,690)
Fund balances, beginning of year	<u>232,170</u>	<u>6,897</u>	<u>63,573</u>	<u>302,640</u>
Fund balances, end of year	<u>\$ 257,468</u>	<u>\$ 12,486</u>	<u>\$ 26,996</u>	<u>\$ 296,950</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

Net change in fund balances - total governmental funds \$ (5,690)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	-	
Less depreciation expense	<u>(2,640)</u>	<u>(2,640)</u>

Change in net assets of governmental activities \$ (8,330)

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

PROPRIETARY FUND

STATEMENT OF NET ASSETS

February 28, 2006

	<u><i>Sewer Fund</i></u>
Assets:	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 57,469
Accounts receivable	8,995
Due from other funds	<u>10,263</u>
Total current assets	<u>76,727</u>
<i>Noncurrent assets:</i>	
Restricted cash and cash equivalents	44,400
Capital assets:	
Nondepreciable capital assets	74,753
Depreciable capital assets, net	<u>2,043,717</u>
Total noncurrent assets	<u>2,162,870</u>
Total assets	<u>2,239,597</u>
Liabilities:	
<i>Current liabilities:</i>	
Accounts payable	218
Due to other funds	75,713
Current portion of long-term debt, payable from restricted assets	<u>8,000</u>
Total current liabilities	<u>83,931</u>
<i>Noncurrent liabilities:</i>	
Long-term debt, net of current portion	<u>265,000</u>
Total noncurrent liabilities	<u>265,000</u>
Total liabilities	<u>348,931</u>
Net assets:	
Invested in capital assets, net of related debt	1,845,470
Restricted for:	
Debt service	44,400
Unrestricted	<u>796</u>
Total net assets	<u>\$ 1,890,666</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended February 28, 2006

	<u><i>Sewer Fund</i></u>
Operating revenues:	
Charges for services	\$ 69,610
Other	<u>4,217</u>
Total operating revenues	<u>73,827</u>
Operating expenses:	
Contracted services	5,005
Administrative expense	1,707
Utilities	2,189
Repair and maintenance	4,452
Other services and supplies	10
Depreciation	<u>52,283</u>
Total operating expenses	<u>65,646</u>
Operating income (loss)	<u>8,181</u>
Non-operating revenues (expenses):	
Interest income	2,539
Interest expense	<u>(13,729)</u>
Total non-operating revenues (expenses)	<u>(11,190)</u>
Net income (loss)	(3,009)
Net assets, beginning of year	<u>1,893,675</u>
Net assets, end of year	<u><u>\$ 1,890,666</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

Year Ended February 28, 2006

	<u><i>Sewer Fund</i></u>
Cash flows from operating activities:	
Cash received from customers	\$ 72,724
Cash payments to suppliers for goods and services	<u>(13,399)</u>
Net cash provided by operating activities	<u>59,325</u>
Cash flows from capital and related financing activities:	
Principal payments	(8,000)
Interest paid	<u>(13,729)</u>
Net cash used by capital and related financing activities	<u>(21,729)</u>
Cash flows from investing activities:	
Interest received	<u>2,539</u>
Net cash provided by investing activities	<u>2,539</u>
Net increase in cash and cash equivalents	40,135
Cash and cash equivalents, beginning of year	<u>61,734</u>
Cash and cash equivalents, end of year	<u><u>\$ 101,869</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 8,181
Adjustments:	
Depreciation	52,283
Changes in assets and liabilities:	
Accounts receivable	1,323
Due from other funds	(2,426)
Accounts payable	<u>(36)</u>
Net cash provided by operating activities	<u><u>\$ 59,325</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Custer conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component units. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no component units required to be included in the Village's reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

The statement of activities reports both the gross and net cost of each of the Village's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village's net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

The Village reports the following major governmental funds:

The **General Fund** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The **Major Street Fund** is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for maintenance and construction of roads designated as major streets in the Village.

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2006

The **Local Street Fund** is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for maintenance and construction of roads designated as local streets in the Village.

The Village reports the following major proprietary funds:

The **Sewer Enterprise Fund** is used to account for the operations of the Village's sewer department that provides sewer services to most residents of the Village on a user charge basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less to be cash equivalents.

Restricted Assets – Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. The amount required to be set aside as of February 28, 2006 is \$44,400. The Village has set aside this amount in accordance with the requirements.

Receivables – All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances, if any, are immaterial at year end.

Interfund Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$500 and an estimated useful life in excess of two years. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) of the governmental funds are capitalized if acquired since March 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Building	50 years
Machinery and equipment	15-20 years
Sewer system	40 years

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2006

Compensated Absences – The Village does not allow the carryover of unused sick or vacation days. Therefore, no liability has been recorded in the government-wide financial statements.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes – Properties are assessed as of December 31 and the related property taxes are attached as an enforceable lien on July 1 of the following year. These taxes are due on or before August 31 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 taxable valuation of the Village totaled \$5,048,285 on which ad valorem taxes levied consisted of 2.2533 mills for the Village's operating purposes.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

Governmental funds are under formal budgetary control. Budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis of accounting which is used to reflect actual results. Budgetary control is exercised at the department level. Supplemental appropriations that amend total expenditures of any department require Village Council resolution. Unexpended appropriations lapse at year end.

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2006

Excess of Expenditures over Appropriations in Budgeted Funds:

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year, the Village did not incur expenditures that were in excess of the amounts budgeted.

NOTE 3: CASH AND CASH EQUIVALENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village does not have a deposit policy for custodial credit risk. At year-end, the Village had \$320,268 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. At year end, the Village had no investments.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2006 was as follows:

	<i>March 1, 2005</i>	<i>Additions</i>	<i>Retirements</i>	<i>February 28, 2006</i>
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 750	\$ -	\$ -	\$ 750
Depreciable capital assets				
Building	32,000	-	-	32,000
Machinery and equipment	40,000	-	-	40,000
Total depreciable capital assets	72,000	-	-	72,000
Accumulated depreciation	(46,560)	(2,640)	-	(49,200)
Depreciable capital assets, net	25,440	(2,640)	-	22,800
Governmental activities, capital assets, net	\$ 26,190	\$ (2,640)	\$ -	\$ 23,550

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

	<u>March 1,</u> <u>2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>February 28,</u> <u>2006</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 74,753	\$ -	\$ -	\$ 74,753
Depreciable capital assets				
Machinery and equipment	16,500	-	-	16,500
Sewer system	2,538,608	-	-	2,538,608
Total depreciable capital assets	2,555,108	-	-	2,555,108
Accumulated depreciation	(459,108)	(52,283)	-	(511,391)
Depreciable capital assets, net	2,096,000	(52,283)	-	2,043,717
Business-type activities, capital assets, net	<u>\$ 2,170,753</u>	<u>\$ (52,283)</u>	<u>\$ -</u>	<u>\$ 2,118,470</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 640
Public works	2,000
Total governmental activities	<u>\$ 2,640</u>
Business-type activities:	
Sewer	<u>\$ 52,283</u>
Total business-type activities	<u>\$ 52,283</u>

NOTE 5: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at February 28, 2006 is as follows:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	
General Fund	Major Street Fund	\$ 1,939
General Fund	Sewer Fund	75,000
Local Street Fund	Sewer Fund	713
Sewer Fund	General Fund	10,263
		<u>\$ 87,915</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

There were no interfund transfers during the year.

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE 6: LONG-TERM LIABILITIES

The Village may issue bonds to provide for the acquisition and construction of major capital facilities. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. The following bond was originally due May 1, 2035. The Village has paid principal payments in advance of them being due, which results in the bond maturing May 1, 2023.

The following is a summary of debt transactions of the Village for the year ended February 28, 2006:

<u>Types of Indebtedness</u>	<u>March 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>February 28, 2006</u>	<u>Due Within One Year</u>
<u>Business-type Activities</u>					
Sanitary Sewer System Revenue Bonds, Series 1995, due in annual amounts of \$8,000-23,000 with interest at 4.5%.	\$ 281,000	\$ -	\$ 8,000	\$ 273,000	\$ 8,000
Total business-type activities	\$ 281,000	\$ -	\$ 8,000	\$ 273,000	\$ 8,000

Annual debt service requirements to maturity for all outstanding debt as of February 28, 2006 are as follows:

<u>Year Ended</u>	<u>Business-type Activities</u>		
<u>February 28,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 8,000	\$ 12,105	\$ 20,105
2008	8,000	11,746	19,746
2009	9,000	11,363	20,363
2010	10,000	10,935	20,935
2011	11,000	10,463	21,463
2012-2016	70,000	43,653	113,653
2017-2021	95,000	25,090	120,090
2022-2024	62,000	3,961	65,961
	\$ 273,000	\$ 129,316	\$ 402,316

NOTE 7: DISAGGREGATED RECEIVABLE BALANCES

Receivables for the Village's governmental and business-type activities in the aggregate are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Receivables:		
Property taxes	\$ 1,565	\$ -
Accounts	-	8,995
Intergovernmental	13,758	-
Total receivables	\$ 15,323	\$ 8,995

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE 8: RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees (workers' compensation); and natural disasters. During the year ended February 28, 2006, the Village carried commercial insurance to cover most risks of losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 9: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Pension Plan

The Village does not provide pension plan benefits.

Post Employment Benefits

The Village does not provide post employment benefits.

Deferred Compensation Plan

The Village does not provide a deferred compensation plan.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF CUSTER

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	<i>Budgeted Amounts</i>			<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues				
Property taxes	\$ 15,000	\$ 14,000	\$ 12,227	\$ (1,773)
State grants	23,000	23,000	23,863	863
Interest and rents	2,000	3,700	11,472	7,772
Other revenue	8,000	4,000	6,409	2,409
Total revenues	<u>48,000</u>	<u>44,700</u>	<u>53,971</u>	<u>9,271</u>
Expenditures				
Current				
General government	24,900	19,900	17,446	(2,454)
Public safety	2,500	2,500	1,044	(1,456)
Public works	13,500	9,000	6,950	(2,050)
Recreation and culture	5,000	4,000	3,233	(767)
Total expenditures	<u>45,900</u>	<u>35,400</u>	<u>28,673</u>	<u>(6,727)</u>
Net change in fund balance	2,100	9,300	25,298	15,998
Fund balance, beginning of year	<u>232,170</u>	<u>232,170</u>	<u>232,170</u>	<u>-</u>
Fund balance, end of year	<u>\$ 234,270</u>	<u>\$ 241,470</u>	<u>\$ 257,468</u>	<u>\$ 15,998</u>

VILLAGE OF CUSTER

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	<i>Budgeted Amounts</i>			<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues				
State grants	\$ 20,000	\$ 20,000	\$ 24,581	\$ 4,581
Interest and rents	400	400	66	(334)
Other revenue	1,000	1,000	-	(1,000)
Total revenues	<u>21,400</u>	<u>21,400</u>	<u>24,647</u>	<u>3,247</u>
Expenditures				
Current				
Public works	<u>10,700</u>	<u>19,500</u>	<u>19,058</u>	<u>(442)</u>
Total expenditures	<u>10,700</u>	<u>19,500</u>	<u>19,058</u>	<u>(442)</u>
Net change in fund balance	10,700	1,900	5,589	3,689
Fund balance, beginning of year	<u>6,897</u>	<u>6,897</u>	<u>6,897</u>	<u>-</u>
Fund balance, end of year	<u>\$ 17,597</u>	<u>\$ 8,797</u>	<u>\$ 12,486</u>	<u>\$ 3,689</u>

VILLAGE OF CUSTER

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	<i>Budgeted Amounts</i>			<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues				
State grants	\$ 8,000	\$ 8,000	\$ 9,080	\$ 1,080
Interest and rents	400	600	1,073	473
Other revenue	500	500	-	(500)
Total revenues	<u>8,900</u>	<u>9,100</u>	<u>10,153</u>	<u>1,053</u>
Expenditures				
Current				
Public works	<u>33,700</u>	<u>53,200</u>	<u>46,730</u>	<u>(6,470)</u>
Total expenditures	<u>33,700</u>	<u>53,200</u>	<u>46,730</u>	<u>(6,470)</u>
Net change in fund balance	(24,800)	(44,100)	(36,577)	7,523
Fund balance, beginning of year	<u>63,573</u>	<u>63,573</u>	<u>63,573</u>	<u>-</u>
Fund balance, end of year	<u>\$ 38,773</u>	<u>\$ 19,473</u>	<u>\$ 26,996</u>	<u>\$ 7,523</u>

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF CUSTER

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended February 28, 2006

Current taxes:

Property taxes	\$ 12,227
	<u>12,227</u>

State grants:

State revenue sharing - sales tax	23,863
	<u>23,863</u>

Interest and rents:

Equipment rental	5,991
Interest	4,281
Rents	1,200
	<u>11,472</u>

Other revenue:

Reimbursements	2,762
Refunds and rebates	3,647
	<u>6,409</u>

Total revenues	<u>\$ 53,971</u>
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VILLAGE OF CUSTER

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended February 28, 2006

General Government:

Council	\$ 7,639
President	840
Clerk/Treasurer	2,304
Buildings and Grounds	<u>6,663</u>
Total general government	<u>17,446</u>

Public Safety:

Fire	<u>1,044</u>
Total public safety	<u>1,044</u>

Public Works:

Truck maintenance	955
Streets	173
Street lighting	<u>5,822</u>
Total public works	<u>6,950</u>

Recreation and Culture:

Recreation/Parks	<u>3,233</u>
Total recreation and culture	<u>3,233</u>
Total expenditures	<u><u>\$ 28,673</u></u>

VILLAGE OF CUSTER

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 28, 2006

Sanitary Sewer System Revenue Bonds, Series 1995

Issue dated June 1, 1995 in the amount of	\$	675,000
Less:		
Principal paid in prior years		(394,000)
Principal paid in current year		<u>(8,000)</u>
Balance payable at February 28, 2006	\$	<u>273,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Principal</u> <u>May 1</u>	<u>Interest</u> <u>May 1</u>	<u>Interest</u> <u>November 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2007	4.500%	\$ 8,000	\$ 6,143	\$ 5,963	\$ 20,106
2008	4.500%	8,000	5,963	5,783	19,746
2009	4.500%	9,000	5,783	5,580	20,363
2010	4.500%	10,000	5,580	5,355	20,935
2011	4.500%	11,000	5,355	5,108	21,463
2012	4.500%	12,000	5,108	4,838	21,946
2013	4.500%	13,000	4,838	4,545	22,383
2014	4.500%	14,000	4,545	4,230	22,775
2015	4.500%	15,000	4,230	3,893	23,123
2016	4.500%	16,000	3,893	3,533	23,426
2017	4.500%	17,000	3,533	3,150	23,683
2018	4.500%	18,000	3,150	2,745	23,895
2019	4.500%	19,000	2,745	2,318	24,063
2020	4.500%	20,000	2,318	1,868	24,186
2021	4.500%	21,000	1,868	1,395	24,263
2022	4.500%	22,000	1,395	900	24,295
2023	4.500%	23,000	900	383	24,283
2024	4.500%	17,000	383	-	17,383
		<u>\$ 273,000</u>	<u>\$ 67,730</u>	<u>\$ 61,587</u>	<u>\$ 402,317</u>

BERTHIAUME
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members of the Village Council
Village of Custer, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund, of the Village of Custer, as of and for the year ended February 28, 2006, which collectively comprise the Village of Custer's basic financial statements and have issued our report thereon dated June 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Custer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Custer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants
June 20, 2006



June 20, 2006

To The Village Council
Village of Custer
Custer, MI

We have audited the financial statements of the Village of Custer for the year ended February 28, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of the Village of Custer in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to

the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Custer are described in Note 1 to the financial statements. We noted no transactions entered into by the Village of Custer during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5)

Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

Comments and Recommendations

We found some payments to EZ-Mart that only had the vendors month end statement for support. As you know, payments to vendors are to be supported by invoices that indicate what the charge is for. We recommend that, in the future, the Village obtain invoices from EZ-Mart.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village of Custer's financial statements and this communication of these matters does not affect our report on the organization's financial statements, dated June 20, 2006.

Summary

We welcome any questions you may have regarding the foregoing.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants